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FISCAL IMPACT STATEMENT

LS 7454

BILL NUMBER: SB 281

NOTE PREPARED: Mar 30, 2005

BILL AMENDED: Mar 29, 2005

SUBJECT: Public School Transfer Program.

FIRST AUTHOR: Sen. Kenley

FIRST SPONSOR: Rep. Behning

BILL STATUS: CR Adopted - 2nd House

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: *Public School Transfers:* This bill Establishes a public school transfer program, allowing the parent of a student to request a transfer for the student to enroll in: (1) a different public school in the student's base school corporation; or (2) a public school in a different school corporation. It provides an allocation of public funds for transfer students between the base school corporation and the receiving school corporation, and provides that the parent is responsible for transportation and any additional costs. The bill allows school corporations to enter into an interlocal agreement under which students may attend school in another school corporation. It also allows a student who has legal settlement in a school corporation and whose parent owns property for which the parent pays property tax in another school corporation to attend school in the school corporation in which the parent owns property without transfer tuition being charged.

Annual Report: The bill requires a school corporation to provide notice to parents concerning the publication of the school corporation's annual performance report and concerning the right of students to transfer out of schools that fail to perform adequately.

(Amended) *Education Tax Credit:* The bill provides an income tax credit for education expenditures for children enrolled in K-12 at a school of choice. It defines school of choice to be: (1) a nonpublic school; or (2) a public school, if it is not the public school where the child has legal residence. It also limits the credit amount per taxpayer. The bill makes the credit refundable.

(Amended) *Freedom to Achieve Program:* The bill creates a scholarship for children to attend a school of choice if the child's resident public school is either required to provide supplemental educational services for the student or to institute corrective action under the No Child Left Behind Act.

Effective Date: (Amended) January 1, 2005 (retroactive); July 1, 2005.

Summary of Net State Impact: (Revised) The net fiscal impact for FY 2006 through FY 2010 from the School of Choice Tax Credit is reported in the table below. The table shows the potential revenue loss for the tax credits along with the reduced tuition support expenditures which would partially offset the revenue loss from the credits based on assumptions provided below.

	FY 2007	FY 2008	FY 2009	FY 2010		FY 2023
Tax Credit	(51.2 M)	(51.2 M)	(114.4 M)	(114.4 M)		(377.5 M)
Reduced Tuition Support - Tax Credit	2.1 M	6.4 M	12.1 M	20.1 M		53.4 M
Net Gain (Loss)	(49.1 M)	(44.8 M)	(102.3 M)	(94.3 M)		(324.1 M)

Explanation of State Expenditures: *Transfer Tuition:* The impact would depend on the number of students that are currently placed in a public care facility, childcare facility, or foster family home and there is no person or entity required to pay the student's transfer tuition. The primary students covered are students where a court terminates the parental rights and places the students in a facility in another school corporation, but no guardian or parent is identifiable. The number of additional students for whom the state would be required to pay transfer tuition is unknown. The impact would depend on the number of students and the transfer tuition cost per student. The Department of Education estimates that the bill might qualify an additional 30 students for state transfer tuition. For the 2003-2004 school year, the state paid \$37,326 in transfer tuition payments and reverted \$162,624. The cost of the additional 30 students would be \$30,000 annually, assuming a cost of \$1,000 above the school formula revenue.

Background: Transfer tuition is paid on the daily costs of the school programs that serve the transfer students. Transfer tuition is approximately equal to the school's general fund expenditures per ADM, but could vary within the school depending on the programs serving the student. Special education and vocational education programs have higher transfer tuition cost than elementary education programs.

School corporations of legal settlement are required to pay transfer tuition if a student is placed in a state licensed private or public health care facility, childcare facility, or foster family home by the Division of Family and Children, court order, or child-placing agency licensed by the Division of Family and Children. A school is also responsible for transfer tuition if the placement is recommended by a physician and is for more than 14 consecutive calendar days or an aggregate of 20 calendar days.

The state is responsible for transfer tuition for students placed in an institution operated by the Division of Family and Children or the Division of Mental Health and Addiction or in an institution, a public or private facility, a home, a group home, or an alternative family setting by the Division of Disability, Aging, and Rehabilitative Services or the Division of Mental Health and Addiction.

Public School Transfers: The provisions of this bill are not likely to affect the amount of funding that is generated by the school funding formula since students who transfer to a different school corporation will still be counted as a member of the school corporation from which the student originated (the base corporation).

The school formula for CY 2007 is unknown so the discussion of the impact will use the CY 2005 simulation. A student cannot transfer for primarily athletic reasons.

The overall effects of this bill will depend upon the decisions made by the parents of the children who are currently enrolled in the state's public schools. The reported K-12 student Average Daily Membership (ADM) for the 2004 - 2005 school year is estimated to be 981,811. Each pupil would be eligible. The number of pupils who participate in this program will depend upon the satisfaction of the parent and the child with the child's current school experience, the availability of other programs in either the same school corporation or another school corporation, the ability of the parent to pay for any difference in tuition, and the willingness of superintendents and principals of school corporations to accept pupils from other school corporations.

The administrative costs for the Department of Education and the Department of State Revenue can probably covered within their existing budget.

Impact of Transfer if Parent Owns Property in School District: The bill allows a student to enroll in a school other than the one in which the student has legal settlement if the parent owns property in the school district the student would attend. The number of students that might be allowed to transfer without paying transfer tuition by the sending school or the parent is unknown. The impact on the state would depend on whether the transfer generated an increase in funding of the school formula. The state impact could vary from an average saving of about \$5,762 per student to an average cost of about \$5,762 per student.

(Revised) *Department of State Revenue (DOR):* DOR will incur additional expenses to revise tax forms, instructions, and computer programs to incorporate this tax credit. The bill also requires DOR to develop a process and create forms which will allow the taxpayer to assign their tax credits to the school in which their dependents are enrolled.

Reduced Tuition Support Attributable to the Tax Credit: State tuition support expenditures could potentially be reduced in ensuing years for students (beginning with the 2006 cohort) who switch from public school to nonpublic school enrollment due to the tax credit, and are subsequently phased-out of ADM. The impact of this activity would depend on the school formula and the number of students that might undertake the enrollment change. There is currently no school formula for CY 2006, however, under the CY 2005 school formula the impact would depend on whether the school of legal settlement was in a minimum guarantee school corporation. If so, there would be no reduction in state tuition support. If the school of legal settlement is funded on a per student basis, it would count 0.8 of a student the first year after the student leaves and not count the student in the fifth year (phasing down in increments of 0.2 per year). It is unknown how many public school students may transfer to a nonpublic school and would have qualified expenditures eligible for the tax credit. The estimates included in this analysis are based on the scenario that 1%, or 10,000 public school students could take advantage of the tax credit. The tax credit estimate assumes that approximately 4,000 public school students make the change to nonpublic enrollment in 2006 and 2007 based on the income qualifiers. The assumed number increases to 7,600 in 2008 as the second income group is phased-in for the credit. By 2022, it is assumed 10,000 students could switch with the elimination of the income limits. The estimated tuition support reduction for these students is presented in the table below. The estimate assumes the tuition support per student is \$5,340 and the fiscal impact from the first ADM reduction in 2006 would be experienced in FY 2007 tuition support payments.

Fiscal Year	Tuition Support Reduction
2007	2.1 M
2008	6.4 M
2009	12.1 M
2010	20.1 M
2023	53.4 M

Freedom to Achieve Program: The bill allows students enrolled in a public school to attend a different school if the school was required to provide supplemental education services under the federal No Child Left Behind Law, “NCLB and their household income is less than 350% of the federal income poverty level. The student could attend a different public school or a non public school that met the adequate yearly progress requirements in NCLB. Based on the Department of Education 2005 data, students in 51 schools could qualify for the change of schools. If the student attended a non-public school then student would continue to be counted in ADM of the school of legal settlement and the scholarship would be the lesser of either state support, excluding all categorical aide, per student the school receives or the tuition costs at the non-public school. The state aid the receiving school receives would be reduced by the scholarship amount. For CY 2005, the state tuition support, excluding categorical aide, ranged from \$719 per student to \$11,723 per student with the average of \$3,142. For students that enroll in a public school of choice, the student would be counted in the ADM on the school. The impact on the state would depend on the school formula and how growing and declining enrollments are treated. The effective date of the section is July 1, 2005 and the Department of Education has to develop an application and parents must apply before July 15 so the first year of the scholarship program would probably be the 2006-07 school year.

Since the scholarship students were in the student count the year before and will continue to be counted in the school of legal settlement, the scholarship should not increase the state costs. The impact of student transferring between public schools would depend on how enrollment changes are determined in the school formula. The impact between public schools would probably be minor.

Explanation of State Revenues: (Revised) *School of Choice Tax Credit:* The bill establishes an Adjusted Gross Income Tax Credit for qualified education expenditures made in a taxable year by a taxpayer whose dependent: (1) is enrolled in a nonpublic school; (2) is enrolled in a public school other than the dependent's school of legal settlement; or (3) is home schooled. Thus, the tax credit could potentially be claimed by three continuing groups of taxpayers: (1) taxpayers whose dependent's would otherwise attend public school at the school of legal settlement but elect one of the enrollment options described above; (2) taxpayer's whose dependent's would attend nonpublic school regardless of the tax credit; and (3) taxpayer's whose dependent's would be home schooled regardless of the tax credit. The estimated tax credits that could potentially be claimed each year is summarized in the table below.

Fiscal Year	Tax Credits
2007	51.2 M
2008	51.2 M
2009	114.4 M
2010	114.4 M
2023	377.5 M

The tax credit may be claimed beginning in: (1) tax year 2006 if the taxpayer's annual household income does not exceed 175% of the federal income poverty level; (2) tax year 2008 if the taxpayer's annual household income exceeds 175%, but does not exceed 350%, of the federal income poverty level; and (3) tax year 2010 if the taxpayer's annual household income exceeds 350% of the federal income poverty level. The maximum credit amounts a taxpayer may claim and the amount of excess credits that may be refunded to a taxpayer vary based on the three income groups. The maximum tax credit a taxpayer may claim is summarized in the table below.

Tax Year	Income <= 175% of Poverty	175% of Poverty < Income <= 350% of Poverty	Income > 350% of Poverty
2006 - 2007	2,000	0	0
2008	3,000	1,000	0
2009	3,000	1,000	0
2010	4,000	2,000	1,000
2011	4,000	2,000	1,000
2012	5,000	3,000	1,000
2013	5,000	3,000	1,000
2014	6,000	4,000	2,000
2015	6,000	4,000	2,000
2016	6,000	4,000	2,000
2017	6,000	4,000	2,000
2018	6,000	4,000	3,000
2019	6,000	4,000	3,000
2020	6,000	4,000	3,000
2021	6,000	4,000	3,000
2022 and after	6,000	4,000	4,000

The estimated revenue loss assumes that 10,000 public school students (approximately 1% of current public school enrollment) leave public school beginning in 2006 and enroll in a nonpublic school. It is estimated that about 5,600 taxpayers would be able to claim tax credits for these students. The revenue loss estimate also assumes that the continuing annual nonpublic enrollment and home school student population will total 134,000 and 22,000, respectively, in the future. It is estimated that about 75,000 taxpayers would be able to claim tax credits for the continuing nonpublic school enrollment, and about 12,000 taxpayers would be able to claim tax credits for the continuing home school student population. The estimates assume that taxpayers will claim the maximum credit, except that creditable home school expenses are assumed to be \$1,000. The estimated revenue loss grows annually as the maximum allowable credit increases and the different income groups phase-on to the tax credit. The FY 2007 to FY 2010 revenue loss estimates apply to tax credits claimed during tax years 2006 through 2009. The FY 2023 revenue loss estimate applies to tax credits claimed during tax year 2022 once the credit is fully implemented.

Explanation of Local Expenditures: *Public School Transfers:* This bill could affect both the operations and revenues of school corporations who lose students and those school corporations who gain students under the Public Elementary and Secondary School Transfer Program. Since the transfer of students requires the approval of both the superintendent and principal that enroll the students, it is possible that no significant changes would occur if they might disrupt school operations or require significant additions of staff and capital facilities for the school enrolling the students. The superintendent must notify the school of legal settlement not later than 15 days of accepting the student.

Local schools could have increased administrative expense associated with notifying parents of their right to transfer their child and of the availability of the school Annual Performance Report. The additional expense would probably be minor.

Effects on Base School Corporations: If school children leave the base corporation and enroll in another school corporation, the base school corporation would lose the state support and school general fund state property tax replacement credits that it receives for the student. Based on estimated state aid projections for the 2005 calendar year, the revenue loss could range from \$2,920 to \$14,478 per student.

If the school corporation loses sufficient students, it could reduce staff and possibly facilities. If a significant number of children remain in the base corporation but move to a different school within that corporation, the school corporation may need to rearrange classroom space, transfer teachers, and make other adjustments to accommodate the shift in students.

Effects on Public School Corporations to which Pupils Transfer: Since each student who transfers would be permitted to receive the state assistance per ADM from their base school corporation, the student's transfer tuition would range from \$2,920 to \$14,478. Based on CY 2005 estimated tuition support, the average transfer tuition per student would be an estimated \$4,485.

Parents of the transferring pupils are responsible for the difference between the costs of attending the school and the transfer tuition.

School corporations would also need to meet annually with the parents of the transferred student to discuss the student's progress and to determine whether the student's transfer tuition may be renewed for the following year.

The bill provides that if adjoining school corporations enter into an interlocal agreement under which students may attend school in the adjoining school corporations, the terms of the interlocal agreement, rather than transfer tuition statutes, govern the payment. The interlocal agreement may be a savings to the school sending the student to the other school corporation. The impact would depend on the number of schools entering into the agreements.

Annual Report: The bill requires a school corporation to provide notice to parents concerning the publication of the school corporation's annual performance report. This will have a minimal impact on administrative expenses.

Explanation of Local Revenues: *Impact of Transfer If Parent Owns Property in School:* The bill allows a student to enroll in a school other than the one the student has legal settlement if the parent owns property in the school district the student would attend. The number of students that might be allowed to transfer without paying transfer tuition by the sending school or the parent is unknown. The school would lose possible transfer tuition revenue that would have been paid by the parent or sending school.

State Agencies Affected: Department of Education; Department of State Revenue.

Local Agencies Affected: Local School Corporations.

Information Sources:

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